

AN AUDIT

State Fair Park

02-10

June 2002

2001-2002 Joint Legislative Audit Committee Members

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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June 27, 2002

Senator Gary R. George and
Representative Joseph K. Leibham, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

As required by s. 13.94(1)(dm), Wis. Stats., we have completed our first annual financial audit of State Fair Park, which is administered by a 13-member board and is attached to the Department of Tourism for administrative purposes. We have issued an unqualified opinion on State Fair Park's fiscal year (FY) 2000-01 financial statements. We found that State Fair Park's total revenues increased 21.9 percent, from \$13.1 million in FY 1995-96 to \$15.9 million in FY 2000-01. However, total expenditures increased at a greater rate and exceeded revenues in three of the last six fiscal years. The Pettit National Ice Center's failure to make \$371,785 in rent payments contributed to a FY 2000-01 deficit, but even if all rent payments had been made, the increase in State Fair Park's expenditures still would have outpaced the increase in its revenues.

Expenditures increased largely because construction of new facilities and improvements to existing facilities increased debt service costs. From FY 1995-96 through FY 2000-01, State Fair Park incurred \$12.7 million in construction costs that will be repaid with program revenue, and its annual debt service costs increased 72.1 percent, from nearly \$1.2 million to \$2.0 million. State general purpose revenue (GPR) funded an additional \$17.1 million in construction costs, and GPR debt service payments will be approximately \$1.0 million annually through FY 2016-17. State Fair Park is assuming additional debt by undertaking an aggressive building program to renovate and replace other aging facilities. It will include a new exposition center, which is being built and will be managed by a not-for-profit corporation created by the State Fair Park Board; a renovated Milwaukee Mile grandstand; a new building known as the Wisconsin Heritage Hall, which will serve as a showcase for Wisconsin products; and the Agriculture Village, which will include new or remodeled livestock facilities.

Successful changes to fairgrounds operations and major facilities improvements may allow State Fair Park to become more financially secure in the future. However, even though all of the new building projects except the Agriculture Village are expected to be self-supporting, debt associated with the building program may represent additional financial risk for both State Fair Park and the State. Efforts to privatize operations, such as the creation of the exposition center's not-for-profit corporation, are increasing State Fair Park's independence at the same time the State is assuming additional financial risk. Consequently, the Legislature may wish to ensure it retains adequate oversight of the State's investment in State Fair Park.

We appreciate the courtesy and cooperation extended to us by State Fair Park staff. A response from State Fair Park is Appendix 4.

Respectfully submitted,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller
State Auditor

JM/JG/ss

Summary

The State Fair Park fairgrounds are home to the 11-day Wisconsin State Fair and the site of numerous other agricultural, industrial, educational, and recreational fairs, exhibits, and promotional events. In addition, the Pettit National Ice Center, an Olympic training facility, and the Milwaukee Mile racetrack are located on the fairgrounds. State Fair Park is governed by the 13-member State Fair Park Board, an independent state agency that is attached to the Department of Tourism for administrative purposes. Its day-to-day operations are managed by a chief executive officer who is an independent contractor.

Under s. 13.94(1)(dm), Wis. Stats., the Legislative Audit Bureau is required to perform an annual financial audit of State Fair Park. This is our first such audit, and we have issued an unqualified opinion on State Fair Park's financial statements for the year ended June 30, 2001.

However, in a 1996 evaluation of the State Fair Park Board, we indicated that State Fair Park's financial condition was deteriorating and questioned whether it could continue to be self-supporting, as it had been since 1935. In this audit, we found that State Fair Park's financial condition has not improved. Although total revenues increased 21.9 percent, from \$13.1 million in fiscal year (FY) 1995-96 to \$15.9 million in FY 2000-01, total expenditures exceeded revenues in three of the last six fiscal years. The Pettit National Ice Center's failure to make \$371,785 in rent payments contributed to the FY 2000-01 deficit, but even if all rent payments had been made, State Fair Park's increase in total expenditures (25.9 percent) exceeded the increase in revenues (24.8 percent).

State Fair Park has three sources of revenue: the annual State Fair, non-fair events for which fairgrounds facilities are rented, and a contract with a racing promoter for operation and promotion of the Milwaukee Mile racetrack. The State Fair has consistently represented the largest source of revenue for State Fair Park, but all revenue sources are largely dependent on attendance, which can fluctuate from year to year because of uncontrollable factors such as weather.

State Fair Park incurs expenditures for its operations, as well as for capital repairs and debt service. Since FY 1995-96, capital repair expenditures have decreased. In contrast, both operating and debt service expenditures have increased significantly. Operating expenditures increased 22.5 percent, from \$11.4 million in FY 1995-96 to nearly \$14.0 million in FY 2000-01.

State Fair Park has also undertaken an aggressive building program to renovate and replace its aging facilities. Unlike minor renovation or repair projects that are funded by cash on hand, the construction of new facilities or major renovations is funded by bonds that are typically repaid over a 20-year period. From FY 1995-96 through FY 2000-01, State Fair Park incurred \$12.7 million in construction costs that will be repaid with

program revenue, for projects such as refurbishing entrances and renovating its recreational vehicle park. Program revenue-funded debt service expenditures increased by 72.1 percent in this six-year period, from \$1.2 million in FY 1995-96 to \$2.0 million in FY 2000-01.

General purpose revenue (GPR) support allowed State Fair Park to incur an additional \$17.1 million in construction costs over the past six years. Since FY 1994-95, GPR-supported bond proceeds have been used to construct a new youth dormitory, improve various barns, and finance other smaller projects. GPR-funded debt service expenditures increased from zero in FY 1995-96 to nearly \$1.0 million in FY 2000-01.

To help improve State Fair Park's future financial viability, 1999 Wisconsin Act 197 granted the State Fair Park Board the authority to organize a nonstock, not-for-profit corporation to raise funds and otherwise support the operation, management, and development of the fairgrounds. In addition, the State Fair Park Board's building program is designed to create additional revenue-generating venues. This program, which was supported by the Governor, includes:

- construction of a new 271,000-square-foot exposition center that is expected to open in August 2002;
- significant remodeling of the Milwaukee Mile grandstand;
- a new building known as the Wisconsin Heritage Hall, which is to be a marketplace for Wisconsin products such as cheese and cranberries and to include restaurants, history galleries, a cheese factory, and a bakery; and
- the Agriculture Village, which will include new or remodeled livestock facilities.

Successful changes to fairgrounds operations and major facilities improvements may allow State Fair Park to become more financially secure in the future. However, the Pettit National Ice Center continues to be delinquent in its rent payments to State Fair Park and, as of May 2002, owed State Fair Park \$817,774 that is intended to fund debt service costs incurred for the facility's construction. Making the debt service payments without offsetting revenue from the Pettit Center limits the funds State Fair Park has available for other purposes, such as fairgrounds operations.

Furthermore, although all of the new building projects except the Agriculture Village are expected to be self-supporting, debt associated with the building program may represent additional financial risk for both State Fair Park and the State. For example, the exposition center was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis, for which the State technically has no legal or moral obligation. However, Department of Administration officials have indicated that the State may provide financial assistance if the exposition center does not have sufficient revenue to make the necessary debt service payments.

In addition, the lease agreement between State Fair Park and the not-for-profit corporation that the State Fair Park Board created to manage the exposition center indicates that the exposition center will pay rent equal to its net revenues less expenditures, which may include operating and debt service reserves. The lease agreement, however, does not establish maximum reserve levels. Therefore, it may be possible for the exposition center to pay little or no rent to State Fair Park and for State Fair Park to independently control its program revenue balance. This mechanism limits legislative budgetary control.

Finally, efforts to privatize operations through the creation of a not-for-profit corporation that manages the exposition center and through contracts with private individuals for services that had previously been provided by state employees are increasing State Fair Park's independence and limiting the State's oversight at the same time that additional financial risks are being assumed. Staff have indicated that greater independence will allow State Fair Park to operate more efficiently in the entertainment industry, and some have argued that the Legislature should grant further independence to State Fair Park by allowing it to become a quasi-governmental authority. However, at the same time GPR funds are subsidizing debt service for some facilities and the State may be called upon to increase such subsidies, the Legislature may wish to ensure it retains adequate oversight of the State's investment in State Fair Park.

Introduction

The current fairgrounds have hosted the State Fair since 1892.

State Fair Park, the State's 190-acre fairgrounds located in the cities of West Allis and Milwaukee, has been home to the Wisconsin State Fair since 1892. Numerous other agricultural, industrial, educational, and recreational fairs, exhibits, and promotional events are also held at the fairgrounds each year, under lease or license agreements with the State Fair Park Board. In calendar year 2000, approximately 1.8 million people attended the State Fair and other events at the fairgrounds. In addition, the Pettit National Ice Center—a United States Olympic training facility—was built on the fairgrounds in 1992 with state and private funding.

The State Fair Park Board is attached to the Department of Tourism.

The 13-member State Fair Park Board, which manages the fairgrounds, is an independent state agency attached to the Department of Tourism for administrative purposes. Board members are appointed by the Governor and confirmed by the Senate for staggered five-year terms. Currently, they include:

- the secretaries of the Department of Tourism and the Department of Agriculture, Trade and Consumer Protection;
- five representatives of business, including three with general business experience, one with agricultural experience, and one with technology experience;
- one resident of the City of West Allis;
- one resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate. However, under s. 15.445(4), Wis. Stats., legislative membership will terminate as of July 1, 2003.

A chief executive officer is responsible for the day-to-day operations of the fairgrounds. Before October 2001, the chief executive officer was a state employee appointed by the State Fair Park Board. In October 2001, the State Fair Park Board contracted with a private consultant for this service. In addition, a private, not-for-profit corporation is responsible for leasing, operating, and maintaining the Pettit National Ice Center during the period of the State's indebtedness for its construction.

In FY 1995-96, State Fair Park began receiving GPR support.

In fiscal year (FY) 2000-01, State Fair Park's program revenue-funded operating budget totaled \$14.8 million, and it was authorized 51.2 full-time equivalent employees. Each year, State Fair Park also employs approximately 1,200 limited-term employees, the majority of whom work during the 11-day Wisconsin State Fair. State Fair Park had been self-supporting from 1935 through FY 1994-95, but in FY 1995-96 the Legislature authorized \$13.0 million in general purpose revenue (GPR)-supported bonds to fund construction of the Tommy G. Thompson Youth Center on the fairgrounds. That facility replaced an aging dormitory used during the State Fair.

State Fair Park has adopted a five-year plan to improve fairgrounds facilities.

In a June 1996 report (report 96-2) issued before the youth dormitory was built, we questioned whether State Fair Park could continue to be financially self-supporting. Since then, State Fair Park has undertaken an aggressive building program for the fairgrounds to renovate and replace its aging facilities. In May 1999, a Strategic Development Committee appointed by the Governor to study the condition of the fairgrounds made recommendations that included hiring an architectural team to develop an integrated functional plan for the fairgrounds, a cost-benefit analysis for existing and proposed facilities, and conceptual designs. State Fair Park subsequently contracted with private firms for architectural services, events programming, landscape design, financial projections, fair consultation, and midway consultation. In August 2000, the State Fair Park Board adopted a master plan that proposes a phased five-year schedule to revitalize the fairgrounds. Almost all fairgrounds facilities would be affected, since the plan includes a new exposition center, grandstands, agriculture and livestock buildings, and entertainment venues.

Under provisions of 1999 Wisconsin Act 197, the Legislative Audit Bureau must perform an annual financial audit of State Fair Park. This is our first such audit. We have issued an unqualified opinion on State Fair Park's financial statements for FY 2000-01. Because the State Fair Park Board has undertaken significant building and improvement projects in recent years, and more projects are planned for the future, we also provide additional information that may be helpful in understanding State Fair Park's current financial condition, including:

- revenue and expenditure trends from FY 1995-96 through FY 2000-01;
- event attendance information;
- funding sources and current and future debt service payments related to State Fair Park's building projects already completed; and
- issues that may affect State Fair Park finances in the future.

To develop this information, we interviewed State Fair Park staff and staff within the Department of Administration who oversee construction projects, and we evaluated financial data provided by both agencies.

State Fair Park Finances

In 1996, when we reviewed State Fair Park's financial condition and capital needs in response to concerns about its ability to remain financially self-supporting, we questioned whether State Fair Park could remain self-supporting because expenditures were increasing at a greater rate than revenues. We also indicated that State Fair Park's ability to finance additional debt would be limited unless net operating revenues increased.

State Fair Park's financial condition has not improved since our 1996 audit.

During our current review, we found that State Fair Park's financial condition has not improved:

- total expenditures continue to increase at a greater rate than revenues;
- total expenditures exceeded revenues in three of the last six years; and
- the Pettit National Ice Center has not made all of its monthly rental payments and, as of June 30, 2001, owed State Fair Park \$371,785 in late rent.

From FY 1995-96 through FY 2000-01, expenditures increased at a greater rate than revenues.

As shown in Table 1, State Fair Park revenues increased from \$13.1 million in FY 1995-96 to \$15.9 million in FY 2000-01, a 21.9 percent increase. If the Pettit National Ice Center had made all the rent payments due in FY 2000-01, State Fair Park would have reported additional revenue of \$371,785, and the increase over the six-year period would have been 24.8 percent. However, even if these rent payments had been made, State Fair Park's total expenditures still increased at a greater rate than revenues: 25.9 percent, or from \$12.7 million in FY 1995-96 to \$16.0 million in FY 2000-01.

Table 1

State Fair Park Revenues and Expenditures*

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess/(Deficit)</u>
1995-96	\$13,058,242	\$12,744,792	\$313,450
1996-97	13,392,417	13,856,052	(463,635)
1997-98	14,119,992	13,770,559	349,433
1998-99	14,189,961	13,867,263	322,698
1999-2000	15,242,451	15,610,735	(368,284)
2000-01	15,920,033	16,044,593	(124,560)

* Data are provided on a budgetary basis, primarily based on cash receipts and cash disbursements during the fiscal year.

State Fair Park Revenues

State Fair Park has three sources of revenue:

- the annual 11-day Wisconsin State Fair held in August, which features midway rides and games, livestock shows, livestock auctions, craft exhibits, musical entertainment, and food and merchandise vendors;
- non-fair events for which fairgrounds facilities are rented, including agricultural and civic events such as the World Beef Expo and the Holiday Folk Fair, special interest or hobby events such as craft fairs, and commercial or business events such as trade shows; and
- a contract with Carl A. Haas Racing Teams, Ltd., a racing promoter, for operation and maintenance of the fairgrounds' one-mile oval track for stock car and Indy Car automobile races.

Increases in State Fair Park's revenues can fluctuate greatly from year to year.

While revenues have increased each year since FY 1990-91, the rate of increase has varied significantly since FY 1995-96, as shown in Table 2. For example, State Fair Park reported a 0.5 percent increase in FY 1998-99 and a 7.4 percent increase in FY 1999-2000. The rate at which revenues have increased has also varied by revenue category. Fair revenue increased 17.6 percent over the six-year period, while non-fair

revenue increased 25.2 percent and racing revenue increased 47.1 percent. Since non-fair and racing revenues constitute a smaller portion of total revenues, increases in these areas had a smaller effect on overall revenues.

Table 2

State Fair Park Gross Revenues

<u>Fiscal Year</u>	<u>Fair</u>	<u>Non-Fair</u>	<u>Racing</u>	<u>Total</u>	<u>Annual Percentage Change</u>
1995-96	\$8,189,254	\$4,004,674	\$ 864,314	\$13,058,242	–
1996-97	8,314,274	4,031,295	1,046,848	13,392,417	2.6%
1997-98	8,427,516	4,581,019	1,111,457	14,119,992	5.4
1998-99	8,061,221	4,741,758	1,386,982	14,189,961	0.5
1999-2000	8,682,473	5,093,380	1,466,598	15,242,451	7.4
2000-01	9,633,951	5,015,015	1,271,067	15,920,033	4.4

State Fair Park Events

The 11-day State Fair represents the largest source of revenue for State Fair Park.

The 11-day Wisconsin State Fair has consistently accounted for the largest portion of State Fair Park’s revenues. Although steps have been taken to increase revenue generated by the State Fair, State Fair Park staff believe dependency on the State Fair as a revenue source must be reduced because the fair is a relatively short event that is largely driven by attendance, which can be affected by weather. Therefore, State Fair Park staff are making efforts to increase total revenue generated by non-fair events. These efforts appear to have been somewhat successful in reducing reliance on the State Fair for revenue, but revenues in all categories fluctuate and are difficult to predict.

State Fair Park can increase revenue through two primary means: by increasing fees for both the State Fair and non-fair events, and by increasing use of the fairgrounds. State Fair Park assesses fees for admission, parking, and facility rental. Examples of recent fee increases include:

- an increased adult admission fee from \$5 per person to \$6 for the 1996 State Fair, and to \$7 for the 2001 State Fair;

- a \$3 admission fee for children between the ages of 7 and 11, who had been admitted free of charge before 2001;
- a \$3 parking fee at all non-fair events, which had no parking fees until 2000; and
- discontinuation of the \$15 carload admission fee beginning with the 2000 State Fair. Without the carload admission fee, parking is \$5 and each individual in a car must pay the \$7 or \$3 admission fee, so that two adults in a car will pay \$19 and larger groups significantly more.

In addition to increasing fees to increase revenues, State Fair Park has attempted to increase usage of the fairgrounds and its related rental revenue. In FY 1994-95, State Fair Park hosted 190 non-fair and racing events, including trade shows, hobby and special interest shows, and youth events. In FY 2000-01, there were 114 such events, a decline of 40.0 percent. However, State Fair Park officials note that while the number of events has declined, the length of individual events and the number of days the fairgrounds are in use have increased.

The percentage of revenues generated by non-fair and racing events has increased slightly since FY 1995-96.

As shown in Table 3, State Fair Park has modestly increased the percentage of total revenues generated by non-fair and racing events over the past six years. In FY 1995-96, 37.3 percent of total gross revenues were from these sources, while the State Fair accounted for 62.7 percent. In FY 2000-01, the percentage of total gross revenues generated by non-fair and racing events was 39.5 percent.

Table 3

Revenue from Non-Fair and Racing Events

<u>Fiscal Year</u>	<u>Number of Events</u>	<u>Revenue Generated</u>	<u>Percentage of Total Gross Revenues</u>
1995-96	156	\$4,868,988	37.3%
1996-97	109	5,078,143	37.9
1997-98	124	5,692,476	40.3
1998-99	127	6,128,740	43.2
1999-2000	128	6,559,978	43.0
2000-01	114	6,286,082	39.5

State Fair Park Attendance

State Fair Park's revenue is dependent on some uncontrollable factors, such as weather.

Although dependence on the State Fair as a revenue source has been somewhat reduced, a large portion of State Fair Park's total revenues continues to be driven by attendance, which is difficult to project from year to year and from event to event. In addition to being affected by weather, attendance may be affected by the popularity of events and by promotional efforts. For example, as shown in Table 4, attendance for non-fair and racing events decreased from nearly 1.1 million in calendar year 2000 to 976,028 in calendar year 2001. State Fair Park staff indicated that this decline was largely caused by poor weather on race days and that it resulted in a decline in racing revenue from nearly \$1.5 million in FY 1999-2000 to \$1.3 million in FY 2000-01.

Table 4

State Fair Park Attendance

<u>Year</u>	<u>State Fair</u>	<u>Non-Fair and Racing</u>
1995	843,778	1,204,538
1996	922,267	1,134,715
1997	911,384	1,006,873
1998	881,313	1,006,904
1999	903,846	1,057,666
2000	904,059	1,055,005
2001	774,650	976,028

State Fair attendance declined in 2001.

Attendance at the State Fair reached a peak of 938,658 in August 1990. As a result of several days of extremely hot weather, attendance at the August 2001 fair was 774,650, which is 17.5 percent below the peak year and 14.3 percent below attendance in 2000. Final FY 2001-02 revenue figures are not yet available, but revenue from the 2001 State Fair was reported as \$7.7 million in April 2002. At the same point in FY 2000-01, \$8.2 million was reported as revenue for the 2000 State Fair.

2001 State Fair revenue may have decreased more if the adult admission fee had not increased from \$6 to \$7 and if the \$3 fee for children had not been implemented in that year. On the other hand, the increased costs may have resulted in some people, especially large families, not attending the fair.

State Fair Park Expenditures

State Fair Park incurs expenditures for operating activities, capital repairs, and debt service.

As shown in Table 5, State Fair Park incurs three types of expenditures:

- operating expenditures, such as salaries and fringe benefits for full-time and limited-term employees, as well as supplies and utilities;
- capital expenditures that typically relate to minor repairs and renovations to existing buildings; and
- debt service expenditures for bonds that funded major renovation and building projects and are being repaid with program revenues.

Operating expenditures increased from \$11.4 million in FY 1995-96 to nearly \$14.0 million in FY 2000-01, an increase of 22.5 percent.

Table 5

State Fair Park Expenditures

<u>Fiscal Year</u>	<u>Operating Expenditures</u>	<u>Capital Expenditures</u>	<u>Debt Service Expenditures</u>	<u>Total Expenditures</u>	<u>Annual Percentage Change</u>
1995-96	\$11,392,133	\$199,551	\$1,153,108	\$12,744,792	–
1996-97	11,506,204	980,826	1,369,022	13,856,052	8.7%
1997-98	12,030,913	288,455	1,451,191	13,770,559	(0.6)
1998-99	12,245,171	146,865	1,475,227	13,867,263	0.7
1999-2000	13,269,965	781,000	1,559,770	15,610,735	12.6
2000-01	13,954,186	106,435	1,983,972	16,044,593	2.8

Capital Repair Expenditures

State Fair Park's capital repair expenditures are made from its capital reserve fund. According to s. 20.190(1)(h), Wis. Stats., State Fair Park is required to transfer its unencumbered operating revenues in excess of expenditures to a capital reserve fund at the end of each fiscal year.

Expenditures from the capital reserve fund have fluctuated from year to year, depending on ongoing projects. For example, as previously shown in Table 5, capital reserve fund expenditures were nearly \$200,000 in FY 1995-96 and nearly \$1.0 million in FY 1996-97. State Fair Park staff indicated that the FY 1996-97 expenditures related to some construction costs for the youth dormitory, in addition to the more routine repair and renovation expenditures from the fund.

State Fair Park's capital reserve fund balance has fluctuated greatly since FY 1994-95.

In our 1996 report, we noted that the capital reserve fund balance was \$3.0 million at the end of FY 1990-91 and had steadily decreased to \$1.1 million at the end of FY 1994-95. As shown in Table 6, the capital reserve fund balance has fluctuated since that time. In FY 1996-97, it declined to \$405,209, its lowest point in at least ten years. However, in FY 2000-01, it increased to \$1.2 million, its highest level since 1994-95.

Table 6

State Fair Park Capital Reserve Fund

<u>Fiscal Year</u>	<u>Ending Balance</u>	<u>Annual Percentage Change</u>
1995-96	\$ 873,056	-
1996-97	405,209	(53.6)%
1997-98	629,230	55.3
1998-99	1,052,738	67.3
1999-2000	816,605	(22.4)
2000-01	1,222,181	49.7

Since FY 1994-95, capital repair expenditures have decreased significantly.

Expenditures from the capital reserve fund have, on average, decreased in recent years. They had averaged \$947,200 per year from FY 1990-91 through FY 1994-95, but only \$417,200 per year since then. According to State Fair Park staff, plans to build new facilities and to extensively remodel existing buildings greatly reduced the need for smaller renovation and repair projects, which were previously funded with the capital reserve fund.

Debt Service Expenditures

Debt service costs funded with program revenue increased 72.1 percent from FY 1995-96 through FY 2000-01.

Unlike minor renovation or repair projects that are funded by cash on hand, the construction of new facilities or major renovations is funded by bonds that are typically repaid over a 20-year period. State Fair Park's annual program revenue-funded debt service expenditures have increased by 72.1 percent over the past six years, from \$1.2 million in FY 1995-96 to nearly \$2.0 million in FY 2000-01. More than half of this increase occurred in FY 2000-01, when State Fair Park's annual debt service payments on program revenue-supported bonds increased by \$424,200 over FY 1999-2000 levels.

Funding of State Fair Park Construction

Until State Fair Park received GPR support for its youth dormitory in FY 1995-96, it funded construction costs with program revenue. However, construction costs have increased significantly in recent years, as State Fair Park has undertaken an aggressive building program to renovate or replace the fairgrounds' aging buildings.

An increasingly larger share of State Fair Park's construction costs are funded with GPR.

Since FY 1995-96, although State Fair Park continues to fund a portion of these costs with program revenue, GPR has been funding an increasingly larger share through GPR-supported bonds and through the State's Building Trust Fund. A central purpose of State Fair Park's building program is to increase its ability to generate revenue in the future, and State Fair Park officials indicated that, based on their projections, this is expected. However, the future profitability of these projects is unknown at this time, and debt service obligations may strain State Fair Park's financial condition in the short run. If this occurs, State Fair Park may need to reduce operating costs or to secure additional GPR funds for its operations.

Construction Costs Supported with Program Revenue Bonds

As shown in Table 7, from FY 1995-96 through FY 2000-01, State Fair Park incurred \$12.7 million in construction costs that were paid with program revenue-supported bond proceeds.

Table 7

Funding Sources of State Fair Park Construction Costs

<u>Fiscal Year</u>	<u>Program Revenue– Supported Bonds</u>	<u>Building Trust Fund</u>	<u>GPR– Supported Bonds</u>	<u>Total Construction Costs</u>	<u>Annual Percentage Change</u>
1995-96	\$ 1,911,587	\$ 0	\$ 2,607,037	\$ 4,518,624	–
1996-97	500,919	0	7,358,449	7,859,368	73.9%
1997-98	1,291,451	0	1,028,538	2,319,989	(70.5)
1998-99	1,868,092	35,060	471,668	2,374,820	2.4
1999-2000	1,198,244	367,973	1,548,675	3,114,892	31.2
2000-01	<u>5,951,070</u>	<u>306,168</u>	<u>3,342,414</u>	<u>9,599,652</u>	208.2
Total	\$12,721,363	\$709,201	\$16,356,781	\$29,787,345	

Construction costs funded with program revenue–supported bond proceeds have fluctuated significantly from year to year, depending on the projects. For example, construction projects funded with these bond proceeds increased to nearly \$6.0 million in FY 2000-01. Of the \$6.0 million, State Fair Park spent \$3.3 million to refurbish its north gate entrance and to provide 70 year-round hook-ups in a recreational vehicle park, which has sewer, water, and electricity; laundry facilities; and shower facilities.

State Fair Park’s annual debt service payments will be approximately \$2.0 million through FY 2012-13.

Appendix 1 lists the scheduled annual debt service payments that State Fair Park will be responsible for paying from FY 2001-02 through FY 2020-21. During that time, total debt service payments will be \$33.1 million, which consists of \$22.1 million in principal and \$11.0 million in interest. Annual payments through FY 2012-13 will be approximately \$2.0 million or more.

Construction Costs Supported with GPR Bonds

Since FY 1995-96, GPR has funded the largest share of State Fair Park construction costs.

As previously shown in Table 7, from FY 1995-96 through FY 2000-01, GPR funds supported construction costs of approximately \$17.1 million: \$709,201 funded immediately through the State's Building Trust Fund, and \$16.4 million—the largest share of State Fair Park construction costs—through GPR-supported bonds. In addition to the youth dormitory, GPR-supported projects completed during that time include improvements to State Fair Park's racetrack, agricultural buildings, and infrastructure.

Through FY 2016-17, GPR debt service payments of approximately \$1.0 million will be paid on State Fair Park's behalf.

While spending from the Building Trust Fund is from available cash and does not involve incurring debt, the GPR-supported bonds are typically repaid over a 20-year period. From FY 1995-96 to FY 2000-01, GPR debt service payments made on behalf of State Fair Park totaled \$3.4 million. Appendix 2 shows scheduled debt service payments to be funded with GPR through FY 2020-21. During this time period, total GPR debt service payments will be \$18.1 million, which consists of \$11.9 million in principal and \$6.2 million in interest. Annual GPR payments from FY 2001-02 through FY 2016-17 will be approximately \$1.0 million.

In addition, while program revenue-supported bonds that fund construction costs are intended to be repaid with revenues generated by State Fair Park operations, GPR from the State will ultimately fund the related debt service costs if program revenues are insufficient to cover them.

Future Considerations

Future building plans may involve financial risk for State Fair Park and the State.

Both the Legislature and the State Fair Park Board have taken steps to help ensure the future of the fairgrounds. 1999 Wisconsin Act 197 authorized the organization of a nonstock, not-for-profit corporation for the purpose of raising funds and providing support for the operation, management, and development of the fairgrounds. With the Governor's support, the State Fair Park Board adopted a plan in August 2000 that includes an aggressive building program for new facilities and major renovations for existing buildings. In addition, State Fair Park officials stated that management decisions will reduce operating expenditures by approximately \$1.0 million between FY 2000-01 and FY 2001-02. While changes to fairgrounds operations and major facilities improvements may allow State Fair Park to become more financially secure in the future, the Pettit Center's uncertain financial condition makes it difficult to assess the demands that may continue to be placed on State Fair Park's financial resources. Furthermore, additional debt associated with the building program may represent significant risk for both the State Fair Park and the State. State Fair Park expects most of its new facilities to be self-supporting. However, if these facilities do not generate revenue as projected or if debt service costs cannot be supported by operations, State Fair Park's financial condition could deteriorate and additional GPR support may be requested from the State at the same time that efforts are made to increase the agency's independence and distance it from state oversight.

Pettit National Ice Center

The Pettit National Ice Center was built in 1992 and financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported bonds. Funds to retire the debt are to be provided through rent payments from the not-for-profit Pettit National Ice Center, Inc., with which State Fair Park entered into a lease agreement to operate and maintain the facility. Under the terms of the lease agreement, the Pettit Center is responsible for its own operating costs and for the debt service costs that State Fair Park incurs on its behalf. The Pettit Center is expected to pay State Fair Park rent of approximately \$74,351 per month to cover the debt service.

The Pettit National Ice Center owes State Fair Park \$817,774 in delinquent rent payments as of May 2002.

As of May 2002, the Pettit National Ice Center owed \$817,774, or 11 monthly payments, to State Fair Park. Because State Fair Park must continue to make debt service payments on this facility without the offsetting rental revenue, the amount available for other fairgrounds operations is reduced.

The Pettit Center's current financial status is uncertain.

The current financial condition of the Pettit Center is uncertain. According to financial information that the managing not-for-profit corporation must submit to the State of Wisconsin Department of Regulation and Licensing, the private contributions on which it relies for much of its support declined significantly between 1997 and 1998, from \$1.4 million to approximately \$530,000. After contributions declined, the Pettit Center generated net losses totaling \$483,631 in 1998 and 1999, and it reported a relatively small net profit of \$33,894 in 2000. Although financial information for 2001 was due on February 28, 2002, the Pettit Center has not submitted that information as of May 2002. Since the Pettit Center was unable to meet its rental payments, it is unlikely that more current finances are positive. The available Pettit Center information is included in Table 8.

Table 8

Pettit National Ice Center Revenues and Expenditures
For Years Ending August 31

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues:				
Program and other revenue	\$2,189,573	\$2,289,314	\$2,178,517	\$2,704,138
Contributions	<u>1,418,679</u>	<u>530,015</u>	<u>490,756</u>	<u>510,462</u>
Total Revenues	3,608,252	2,819,329	2,669,273	3,214,600
Expenditures	<u>(3,068,877)</u>	<u>(3,061,777)</u>	<u>(2,910,456)</u>	<u>(3,180,706)</u>
Net Profit/(Loss)	539,375	(242,448)	(241,183)	33,894

State Fair Park is working with the Pettit Center to resolve the overdue payments. Pettit Center officials have indicated that they have considered refinancing the debt. The U.S. Olympic Committee has also expressed an interest in jointly marketing the Pettit Center, which may help to improve future revenues. However, uncertainty regarding the Pettit Center's financial condition makes it difficult to assess the future demands that may be placed on State Fair Park's financial resources. The Legislature may need to assist in defining State Fair Park's future relationship with the Pettit Center, including the level of public financial support that may be necessary.

Funding for New Fairgrounds Facilities

The master plan adopted by the State Fair Park Board in August 2000 will create expenditure obligations related to:

- a new 271,000-square-foot exposition center on the fairgrounds, which is expected to be completed in August 2002;
- significant renovations to the Milwaukee Mile grandstand;
- a new building known as the Wisconsin Heritage Hall, which is to be a showcase for Wisconsin products such as cheese, honey, cranberries, and wine; and
- the Agriculture Village, which will include new or remodeled livestock facilities.

State Fair Park expects all new activities, except agricultural buildings, to be self-supporting.

State Fair Park staff stated that the current fairgrounds facilities lack the ability to generate additional revenue, and each of these projects except for the Agriculture Village is expected to generate sufficient revenue to be self-supporting. However, financial projections for the exposition center and the grandstand anticipate losses in the first few years of operation. Because proceeds from the bonds that will fund construction and possibly some debt service costs cannot be used to support operating losses, it is unclear how projected losses would be funded.

Exposition Center

A not-for-profit corporation was created to build a new exposition center on the fairgrounds.

In October 2000, the State Fair Park Board created the not-for-profit State Fair Park Exposition Center, Inc., to build and manage a new exposition center on the fairgrounds. It is governed by a five-member board consisting of the chairperson of the State Fair Park Board, one other member of the State Fair Park Board, and three members appointed by the Exposition Center Board. The Exposition Center Board has broad general powers that include obtaining financing by means of loans or other methods and approving the sale, lease, or purchase of real estate.

Construction of the exposition center is being funded with \$44.9 million in industrial revenue bonds that were issued in August 2001 by the City of West Allis to cover projected construction costs of \$35.8 million, as well as an \$8.5 million reserve for debt service and interest costs and nearly \$600,000 in bond issuance costs. The City of West Allis loaned the bond proceeds to the Exposition Center Board, and the Exposition

Center Board obtained a letter of credit from a commercial lending institution to secure the loan and the bonds. According to State Fair Park and Department of Administration staff, the State has no legal or other obligation to repay this debt if the Exposition Center Board is unable make the necessary debt service payments.

In August 2001, the Exposition Center Board also entered into an agreement with State Fair Park to lease 7.52 acres on the fairgrounds for construction of the exposition center. The lease agreement indicates that rent payments to State Fair Park will be equal to the exposition center's annual gross revenues from all sources, less its annual operating expenses including but not limited to debt service, debt reserves, operating costs, and operating reserves. State Fair Park staff stated that various service agreements will also be negotiated with the Exposition Center Board to outline the specific revenues each entity will receive and the expenditures each will take responsibility for paying.

Service agreements between State Fair Park and the Exposition Center Board have not yet been finalized.

The service agreements between State Fair Park and the Exposition Center Board have not yet been finalized. Therefore, decisions such as which entity retains the parking revenue or incurs the grounds maintenance costs have not been determined. In addition, the lease agreement does not specify maximum levels for the debt and operating reserve funds.

The exposition center's lease agreement will allow State Fair Park to control its program revenue balance.

Without restrictions as to how large these reserve funds can become, they may be set at such a high level that funds are kept within the exposition center and State Fair Park receives little or no rent revenue. Because the State Fair Park Board essentially controls the exposition center, this mechanism would allow State Fair Park to control its program revenue balance. Although State Fair Park typically retains the program revenue it generates from the State Fair and other events, the Legislature has periodically required program revenue lapses in the past and is currently considering such a lapse.

The budget reform bill approved by the Joint Committee on Finance required State Fair Park to lapse \$447,000 in program revenue to the General Fund in FY 2001-02, and \$638,600 in FY 2002-03. Further legislative action is pending.

Furthermore, in October 2000, a year before the industrial revenue bonds were actually issued, a private consultant to State Fair Park projected that the exposition center would report net losses totaling nearly \$1.0 million in its first two years of operation, would essentially break even in the third year, and would begin generating a net profit in its fourth year. The projections are shown in Table 9.

Table 9

Projected Exposition Center Revenues and Expenditures*
As of October 2000

	<u>Revenues</u>	<u>Operating Expenditures</u>	<u>Funds Retained for Reserve</u>	<u>Debt Service Expenditures</u>	<u>Net Gain/(Loss)</u>
Year 1	\$ 7,653,832	\$4,804,372	\$316,255	\$3,408,508	\$(875,303)
Year 2	8,694,829	5,064,466	325,742	3,408,508	(103,887)
Year 3	8,955,674	5,216,400	335,514	3,408,508	(4,748)
Year 4	9,224,344	5,372,892	345,580	3,408,508	97,364
Year 5	9,501,075	5,534,079	355,947	3,408,508	202,541
Year 6	9,786,107	5,700,101	366,626	3,408,508	310,872
Year 7	10,079,690	5,871,104	377,624	3,408,508	422,454
Year 8	10,382,081	6,047,238	388,953	3,408,508	537,382
Year 9	10,693,543	6,228,655	400,621	3,408,508	655,759

* Projections prepared by private financial consultant contracted by State Fair Park.

The new exposition center is expected to draw eight events from other Milwaukee facilities.

These projections assume that:

- 48 events will transfer from the fairgrounds' existing facilities to the new exposition center;
- 8 events from other Milwaukee-area facilities, such as the Midwest Express Center, will move to this new facility;
- 12 new events will be attracted to the Milwaukee area and the new exposition center;
- the facility will be priced at market rates;
- either State Fair Park will pay rent for use of the exposition center during the State Fair or exhibitors will pay rent directly to the exposition center during the fair;
- any parking revenues generated from events held at the exposition center will be retained by the exposition center.

The Exposition Center Board's actual debt service expenditures, which are listed in Appendix 3, are lower than originally anticipated: instead of \$3.4 million, the debt service payments over the life of the bonds will average \$3.0 million annually. However, if the exposition center reports net losses and is unable to make its debt service payments, Department of Administration officials have recently indicated that the State may provide financial assistance, although it is not legally or morally required to do so. This assistance may be provided through GPR support or by having State Fair Park assume some costs. If State Fair Park assumed additional costs for the exposition center, State Fair Park's financial condition would worsen. Furthermore, although the new exposition center may bring additional events to the fairgrounds, State Fair Park may also lose revenue that it currently receives, such as parking fees and exhibitor rental fees during the State Fair, if its service agreements with the exposition center reflect some of the underlying assumptions on which the exposition center's revenues have been projected. As noted, the service agreements have not yet been finalized.

Grandstand

State Fair Park's one-mile oval track, known as the Milwaukee Mile, is the oldest operating major automobile speedway in the United States. Since March 1992, State Fair Park has contracted with Carl A. Haas Racing Teams, Ltd., to promote and sponsor professional and amateur racing events at the track. Under the current contract, State Fair Park receives:

- a minimum annual track rental fee of \$300,000 from Haas Racing;
- payment from Haas Racing representing a share of race profits; and
- concessions revenue earned by State Fair Park operations.

Grandstand renovations address safety and other concerns.

State Fair Park has planned and begun significant remodeling and structural renovations to the Milwaukee Mile grandstand, which was built in 1938. Renovations were needed because of safety concerns; because the grandstand did not provide the concession, meeting, and restroom space that would make it more desirable for non-race events; and because poor sight lines from the grandstand limited the number of seats that could be sold or required seats to be discounted heavily.

Grandstand renovations of \$20.5 million will be funded with program revenue-supported bonds.

In February 2002, the State Fair Park Board approved spending a total of \$20.5 million in program revenue-supported bond proceeds to rebuild the grandstand. Of this amount, approximately \$4.0 million will be used to replace the bleachers. Demolition of the old grandstand began in February 2002, and the project is expected to be completed by May 2003, in time for the 2003 racing season. State Fair Park staff indicate that the new grandstand will improve sight lines and will add concession space and approximately 3,000 seats, including luxury boxes. The new grandstand is expected to increase the number of events held at the Milwaukee Mile, as well as event attendance and revenue per seat. The private consultant that prepared the exposition center cost-benefit analysis also reviewed grandstand operations. The consultant's projections for net annual income are included in Table 10.

Table 10

Projected Racetrack Revenues and Expenditures*
As of June 2000

	<u>Revenues</u>	<u>Operating Expenditures</u>	<u>Funds Retained for Reserve</u>	<u>Debt Service Expenditures</u>	<u>Net Gain/(Loss)</u>
Year 1	\$1,215,919	\$201,014	\$12,160	\$1,200,248	\$(197,503)
Year 2	1,997,330	414,089	19,974	1,200,248	363,019
Year 3	2,057,250	426,512	20,573	1,200,248	409,917
Year 4	2,118,968	439,307	21,191	1,200,248	458,222
Year 5	2,182,537	452,487	21,825	1,200,248	507,977
Year 6	2,248,013	466,061	22,481	1,200,248	559,223
Year 7	2,315,453	480,043	23,155	1,200,248	612,007
Year 8	2,384,917	494,445	23,849	1,200,248	666,375
Year 9	2,456,464	509,278	24,564	1,200,248	722,374

* Projections prepared by private financial consultant contracted by State Fair Park.

According to the consultant's report, the new grandstand could attract two additional events to the Milwaukee Mile and would generate a profit after the first year of operation. Information on actual debt service requirements is not yet available.

Wisconsin Heritage Hall and Agriculture Village

As noted, the Wisconsin Heritage Hall is to be a marketplace for Wisconsin products and to include various restaurants, history galleries, a cheese factory, and a bakery. The Agriculture Village could consist of remodeled livestock barns, new livestock barns, a remodeled coliseum for showing and judging farm animals, and a children's play area with an agricultural theme. State Fair Park staff have indicated that plans for these facilities are still being developed.

GPR support of \$9.0 million was approved for agricultural facilities.

State Fair Park expects to fund the construction and operation of the Wisconsin Heritage Hall with program revenue and some private donations. Because the Agriculture Village is not expected to be self-supporting, both its construction and its continuing operations will need to be supported by revenue from other State Fair Park programs or by GPR. In June 2001, the Legislature approved \$9.0 million in GPR-supported borrowing for agricultural facilities on the fairgrounds. At one time, a hotel and train station were also being considered for the fairgrounds. State Fair Park staff stated that any plans for a hotel have been abandoned. However, since existing railroad tracks at the fairgrounds also go past or near the Milwaukee Zoo, Miller Park, and the Summerfest grounds, State Fair Park officials indicate the train station may be pursued at a later date.

According to State Fair Park staff, the agency has considered selling naming rights for the exposition center, grandstand, and other buildings. However, State Fair Park has not yet held discussions with possible donors and did not factor revenue from naming rights into its financial projections.

Organizational Issues

New facilities are expected to attract new events.

State Fair Park staff believe the renovated fairgrounds will attract people and new events to the Milwaukee area. However, they may also compete with the private sector for patrons' discretionary funds for entertainment. For example, the Wisconsin Heritage Hall would compete with restaurants and entertainment venues. In addition, as previously noted, initial financial projections for the exposition center assume it will attract eight events from other Milwaukee-area facilities.

The fairgrounds' exposition center may attract some of these events from facilities in the downtown Milwaukee area, where parking has been known to be a problem for large consumer and trade shows. For example, the Milwaukee Journal Sentinel Sports Show will move its trade show from downtown Milwaukee to the new exposition center starting in 2003. The Sports Show has signed a five-year contract with the exposition center.

Other events may no longer be able to afford the prices charged for space within the new exposition center. For example, Rummage-o-rama, an event held at the fairgrounds for 30 years, has indicated that it will no longer be able to afford the rental rates and will be looking for a different facility to host its 2003 show. State Fair Park staff stated that, in some cases, rental rates may double or triple amounts previously paid.

Some may raise concerns that State Fair Park, as a state agency and subsidized entity of the State, should not compete with the private sector. On the other hand, some believe that, since the State has made the commitment to conduct an annual fair and operate the fairgrounds, State Fair Park must compete with the private sector to be operational year-round and to minimize the GPR subsidy provided for capital and debt service costs.

To build and competitively operate the fairgrounds' new facilities, State Fair Park staff have indicated they must privatize some facilities and functions. Not only are both the new exposition center and the Pettit National Ice Center operated by private, not-for-profit corporations, State Fair Park now contracts with private individuals for some services that had at one time been provided by state employees. For example, since October 2001, State Fair Park's chief executive officer has been a private consultant whose contract includes an annual base salary plus the potential to earn \$6,600 annually in incentive payments, which are typically not available to state employees. However, State Fair Park officials indicated that, when the private consultant was hired, fundraising that cannot be performed by a state employee was added to the chief executive officer's responsibilities.

As some functions were privatized, State Fair Park and the State needed to address certain legal, operating, and personnel challenges. For example, as a contractor, the chief executive officer is not permitted to make personnel decisions, such as hiring and terminating state employees. Instead, the Secretary of the Department of Tourism, to which State Fair Park is attached for administrative purposes, has taken responsibility for such personnel decisions. In addition, the State Fair Park Board and the Exposition Center Board have entered into a lease agreement and, in the future, will develop service agreements to outline the rights and responsibilities of both parties.

The Legislature may be asked to grant State Fair Park more flexibility in its operations.

Some have suggested that the Legislature should change State Fair Park's structure and its relationship to state government to allow it more flexibility in operations and the ability to expand to new business ventures. State Fair Park staff believe greater operational independence is necessary for two reasons. First, they believe it removes restrictive state requirements and guidelines, such as those related to purchasing that inhibit competition in the entertainment marketplace, as well as state personnel guidelines that they argue restrict flexibility in hiring

practices. Second, they note that privatization of the exposition center allows it to operate on a fiscal year other than the State's fiscal year, which ends June 30 of each year. State agencies are required to prepare and provide financial and budgetary information as of that date. State Fair Park staff note that because June 30 immediately precedes the annual State Fair, which is the busiest time of the year for the fairgrounds, State Fair Park would better capture financial information and better budget for its events if its fiscal year did not end on that date.

The Legislature should consider the State's liability if State Fair Park is granted further independence.

Proposals to grant additional independence to State Fair Park may be considered in the future. While changing State Fair Park to a quasi-governmental authority may address some concerns, the Legislature should also consider the type of controls the State would have over fairgrounds operations and what the State's liability would be if State Fair Park or any of its associated facilities experienced financial difficulties. At a time when GPR funds are subsidizing debt service for some facilities and the State may be called upon to increase such subsidies, the Legislature may wish to ensure it retains adequate oversight of the State's investment in State Fair Park.

Independent Auditor's Report on the Financial Statements of the Wisconsin State Fair Park

We have audited the accompanying balance sheet of the Wisconsin State Fair Park as of June 30, 2001, and the related statement of revenues, expenses, and changes in retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Wisconsin State Fair Park as of June 30, 2000, were audited by other auditors whose report, dated October 25, 2000, expressed an unqualified opinion to those statements. However, prior-period adjustments described in Note 8 should be taken into consideration when reviewing the financial statements as of June 30, 2000.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Wisconsin State Fair Park and are not intended to present fairly the financial position of the State of Wisconsin, the results of its operations, and its cash flows in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wisconsin State Fair Park as of June 30, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2002, on our consideration of the Wisconsin State Fair Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

May 15, 2002

by 
Julie Gordon
Audit Director

**State Fair Park
Balance Sheet
June 30, 2001**

Assets	
Cash and Cash Equivalents (Notes 2C and 7)	\$ 2,944,977
Accounts Receivable	1,549,876
Due from Other Funds (Note 2G)	341,228
Inventories	108,254
Prepaid Items	180,423
Fixed Assets (net of accumulated depreciation) (Notes 2E and 3)	<u>37,577,605</u>
Total Assets	<u><u>\$ 42,702,363</u></u>
Liabilities and Fund Equity	
Liabilities:	
Accounts payable	\$ 724,118
Due to other funds (Note 2G)	694,358
Tax and other deposits	79,757
Deferred revenue (Note 2D)	1,415,327
Interest payable	244,445
Compensated absences (Note 2F)	82,759
Capital lease obligations (Note 4)	66,685
Notes payable (Note 6)	3,120,796
General obligation bonds payable (Note 6)	<u>19,043,236</u>
Total Liabilities	<u>25,471,481</u>
Fund Equity:	
Contributed capital (Note 9)	22,051,488
Retained earnings—unreserved	<u>(4,820,606)</u>
Total Fund Equity	<u>17,230,882</u>
Total Liabilities and Fund Equity	<u><u>\$ 42,702,363</u></u>

The accompanying notes are an integral part of this statement.

State Fair Park
Statement of Revenues, Expenses, and Changes in Retained Earnings
for the Year Ended June 30, 2001

Operating Revenues	
Charges for Sales and Services	\$ 15,910,803
Other Income	62,598
Total Operating Revenues	15,973,401
Operating Expenses	
Personal Services	5,709,571
Supplies and Services	7,872,499
Depreciation	2,241,467
Other Expenses	76,067
Total Operating Expenses	15,899,604
Net Operating Income (Loss)	73,797
Non-Operating Revenues (Expenses)	
Investment Income	67,632
Loss on Disposal of Assets	(343,223)
Interest Expense	(1,072,348)
Total Non-Operating Revenues (Expenses)	(1,347,939)
Net Income (Loss) Before Operating Transfers	(1,274,142)
Operating Transfers Out	(249,165)
Total Net Income (Loss)	(1,523,307)
Changes in Retained Earnings	
Retained Earnings, Beginning of Year as Previously Stated	(1,200,177)
Prior-Period Adjustment for Understated Expenses (Note 8)	(2,097,122)
Retained Earnings, Beginning of Year Adjusted	(3,297,299)
Retained Earnings, End of Year	\$ (4,820,606)

The accompanying notes are an integral part of this statement.

State Fair Park
Statement of Cash Flows
for the Year Ended June 30, 2001

Cash Flows from Operating Activities

Cash Received from Customers	\$ 15,233,626
Cash Payments to Suppliers for Goods and Services	(7,742,039)
Cash Payments to Employees for Services	(5,697,493)
Other Operating Revenues	62,598
Other Operating Expenses	<u>(76,067)</u>
Net Cash Provided (Used) by Operating Activities	1,780,625

Cash Flows from Non-Capital Financing Activities

Operating Transfers Out	<u>(249,165)</u>
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Cash Flows from Related Capital and Related Financing Activities

Proceeds from Issuance of Debt	8,000,000
Capital Contributions	3,808,339
Repayment of Debt	(917,297)
Interest Paid	(897,342)
Capital Lease Payments	(19,997)
Interest Earned on Debt Proceeds	67,632
Purchase of Fixed Assets	(10,611,695)
Other Cash Flows from Capital and Related Financing Activities	<u>(286,326)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(856,686)</u>
Net Increase in Cash and Cash Equivalents	<u>674,774</u>
Beginning of Year Cash and Cash Equivalents, Restated	<u>2,270,203</u>
End of Year Cash and Cash Equivalents	<u><u>\$ 2,944,977</u></u>

The accompanying notes are an integral part of this statement.

State Fair Park
Statement of Cash Flows
for the Year Ended June 30, 2001

Reconciliation of Net Operating Income to
Net Cash Provided by Operating Activities

Net Operating Income (Loss)		\$ <u>73,797</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation Expense		2,241,467
Change in Provision for Uncollectible Accounts		71,754
Changes in Assets and Liabilities		
Decrease (Increase) in Receivables		(840,899)
Decrease (Increase) in Inventories		57,475
Increase (Decrease) in Prepaid Items		(76,218)
Increase (Decrease) in Accounts Payable		13,635
Increase (Decrease) in Due to Other Funds		63,814
Increase (Decrease) in Deposits		(5,832)
Increase (Decrease) in Deferred Revenues		169,554
Increase (Decrease) in Compensated Absences		<u>12,078</u>
Total Adjustments		<u>1,706,828</u>
Net Cash Provided (Used) by Operating Activities		<u>\$ 1,780,625</u>

The accompanying notes are an integral part of this statement.

1. Description of the Wisconsin State Fair Park

The Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. The Wisconsin State Fair, which is held on State Fair Park grounds, is one of the state's oldest and largest events and typically hosts approximately one million people during the 11-day event. In addition to holding the annual fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency within the administrative structure of the State of Wisconsin. State Fair Park is governed by a 13-member board appointed by the Governor of the State of Wisconsin. The current charter of the Wisconsin State Fair Park Board reads as follows: "The State Fair Park Board is directed to manage State Fair Park and supervise its use for fairs, exhibits, or promotional events for agricultural, commercial, educational, and recreational purposes, to lease or license the property's use for other purposes when not needed for a public purpose, and to charge reasonable rents and fees for use of the premises. The Board is also directed to develop new facilities at State Fair Park and to provide a permanent location for an annual Wisconsin State Fair, major sports events, agricultural and industrial expositions, and other programs of civic interests."

State Fair Park's financial activity is accounted for within the State Fair Park Fund, which is part of the State of Wisconsin financial reporting entity.

2. Summary of Significant Accounting Policies

- A. Fund Accounting and Basis of Presentation - The financial statements of State Fair Park have been prepared in conformance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). Proprietary funds are accounted for on the accrual basis of accounting, with revenues recognized when earned and expenses recognized when incurred. Enterprise funds, which are a type of proprietary fund, account for operations that are financed and operated in a manner similar to private business enterprises in which the costs, including depreciation, of providing goods or services to the general public are financed through user charges (sales). These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.

- B. Revenue Recognition - State Fair Park derives the majority of its revenues from events such as the annual State Fair held at the park site. Revenue for the events is recognized at the time the events are held.
- C. Cash and Cash Equivalents - Cash and cash equivalents reported on the balance sheet and the statement of cash flows include:
- cash deposited with the State Treasurer, where available balances beyond immediate needs are pooled in the State Investment Fund, a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees;
 - cash deposited with a commercial financial institution; and
 - currency on hand at State Fair Park.
- D. Deferred Revenue - For cash receipts collected in advance of events from vendors or the general public, revenue is not recognized until the event occurs. Therefore, deferred revenue is recorded based upon payments received before events occur.
- E. Fixed Assets - Fixed assets purchased for \$5,000 or more are recorded at cost and are depreciated using the straight-line method according to the following schedule:

	<u>Estimated Life</u>
Buildings and Improvements	15 to 31.5 years
Machinery and Equipment	5 to 7 years

- F. Employee Compensated Absences - State Fair Park's compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30, 2001. The liability and expense for compensated absences are based on current rates of pay.
- G. Due to (from) Other State Funds - During the course of operations, transactions for goods provided or services rendered occur among individual state programs. The balance sheet classifies these receivables and payables as "Due from Other Funds" or "Due to Other Funds."

3. Fixed Assets

Fixed asset transactions for the year ended June 30, 2001, are summarized on the following page:

	Balances June 30, 2000 <u>Restated</u>	<u>Additions</u>	<u>Disposals</u>	Balances June 30, 2001
Land	\$ 579,000	\$ 409,747	\$ 0	\$ 988,747
Buildings and improvements	47,369,675*	9,230,214	(2,387,074)	54,212,815
Machinery and equipment	1,273,183	28,654	(79,100)	1,222,737
Construction in progress	<u>3,863,676*</u>	<u>1,542,997</u>	<u>(3,863,676)**</u>	<u>1,542,997</u>
Total fixed assets	\$53,085,534*	\$11,211,612	\$(6,329,850)	\$57,967,296
Accumulated depreciation				<u>(20,389,691)</u>
Net fixed assets				\$37,577,605

* Balances as of June 30, 2000 were restated due to prior-period adjustments. See Note 8.

** Construction in progress disposals of \$3,863,676 represent construction projects in progress as of June 30, 2000, which were subsequently completed during FY 2000-01 and are now reported as buildings and improvements.

4. Capital Lease Obligations

During FY 1999-2000, State Fair Park leased equipment valued at \$96,100 under a capital lease. The asset is included in fixed assets and is amortized over the term of the lease. The accumulated depreciation on the equipment totaled \$38,440, resulting in a net book value of \$57,660. Total lease payments for the fiscal year ended June 30, 2001 were \$24,821. Future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2001, are as follows:

For the year ending:	
June 30, 2002	\$24,821
June 30, 2003	24,821
June 30, 2004	<u>24,821</u>
Total minimum lease payments	74,463
Less: Amount representing interest	<u>7,778</u>
Present value of minimum lease payments	\$66,685

5. Operating Lease Obligations

State Fair Park leases equipment under operating leases expiring in FY 2001-02. Total rental expense for the year ended June 30, 2001 was \$5,532. Future minimum lease payments are \$809 for the year ended June 30, 2002.

6. Debt Obligations

State of Wisconsin general obligation bonds and commercial paper are issued to finance the construction, development, improvement, and repair of facilities on the State Fair Park grounds. All general obligation bonds authorized and issued by the State are secured by the full faith, credit, and taxing power of the State of Wisconsin. Funding to cover debt service payments comes from program revenue received from State Fair Park operations, as well as from general purpose revenues of the State of Wisconsin.

Debt to Be Repaid from State Fair Park Program Revenue

Program revenue-supported bonding is reported on State Fair Park's balance sheet. The changes in State Fair Park's portion of long-term liability are as follows:

	<u>Balance</u> <u>June 30, 2000</u>	<u>New Debt</u> <u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2001</u>
Commercial paper	\$ 212,993	\$3,000,000	\$ (92,197)	\$ 3,120,796
Bonds	<u>14,799,415</u>	<u>5,153,604</u>	<u>(909,783)</u>	<u>19,043,236</u>
Total	\$15,012,408	\$8,153,604	\$(1,001,980)	\$22,164,032

As of June 30, 2001, future debt service requirements to be paid from State Fair Park program revenue are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2002	\$ 1,208,196	\$ 1,140,195	\$ 2,348,391
2003	1,261,049	1,081,368	2,342,417
2004	1,222,754	1,015,844	2,238,598
2005	1,276,946	947,039	2,223,985
2006	1,188,079	878,439	2,066,518
Thereafter	<u>16,007,008</u>	<u>5,844,977</u>	<u>21,851,985</u>
Total	\$22,164,032	\$10,907,862	\$33,071,894

Debt to Be Repaid from State of Wisconsin General Purpose Revenue

Debt service payments to be made from general purpose revenues represent a debt of the State of Wisconsin and not a debt of State Fair Park. The debt liability and debt service payments are reported in the State of Wisconsin General Fund, while the related assets, repair expense, and contributed capital (see Note 9) are reported in the financial statements of State Fair Park. The changes in the State's General Fund long-term liability to be paid on behalf of State Fair Park are as follows:

	<u>Balance June 30, 2000</u>	<u>New Debt Proceeds</u>	<u>Payments and Refunds</u>	<u>Balance June 30, 2001</u>
Commercial paper	\$ 5,915,902	\$ 65,000	\$(3,269,849)*	\$ 2,711,053
Bonds	<u>6,195,922</u>	<u>3,199,369</u>	<u>(238,550)</u>	<u>9,156,741</u>
Total	\$12,111,824	\$3,264,369	\$(3,508,399)	\$11,867,794

* Commercial paper debt of \$2,907,300 was refunded to bond debt during FY 2000-01 and accounts for the majority of the new debt proceeds reported for bonds.

As of June 30, 2001, future debt service requirements to be paid from State of Wisconsin general purpose revenue are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2002	\$ 484,270	\$ 597,956	\$ 1,082,226
2003	504,857	576,120	1,080,977
2004	528,369	553,979	1,082,348
2005	553,029	530,073	1,083,102
2006	553,205	502,768	1,055,973
Thereafter	<u>9,244,064</u>	<u>3,440,967</u>	<u>12,685,031</u>
Total	\$11,867,794	\$6,201,863	\$18,069,657

7. Deposits

GASB Statement 3 requires deposits with financial institutions be categorized to indicate the level of risk assumed by the State. The risk categories for deposits are: 1) insured or collateralized with securities held by State Fair Park or by its agent in State Fair Park's name; 2) uninsured but collateralized by the financial institution; and 3) uninsured and uncollateralized.

State Fair Park's cash balances are deposited with the State of Wisconsin Treasurer and in a commercial checking account. In addition, cash is kept on hand for use during State Fair Park events. The State of Wisconsin Investment Board, through the State Investment Fund, invests cash deposited with the State of Wisconsin Treasurer. The carrying amount of shares in the State Investment Fund, which approximates market value, was \$2,884,477 as of June 30, 2001. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers. Where possible, investments in the State Investment Fund are reported at fair value for financial reporting purposes and are based on quoted market prices. Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission as an investment company.

The carrying amount that is the bank balance of the commercial checking account at June 30, 2001, was \$1,300. The Federal Deposit Insurance Corporation and the Wisconsin State Deposit Guarantee Fund (s. 34.08, Wis. Stats.) cover state deposits. The entire balance of \$1,300 at June 30, 2001, was insured and classified in risk category 1. The remaining cash balance of \$59,200 was on hand at State Fair Park and, therefore, not included in a risk category.

8. Prior-Period Adjustment

Due to errors found in reporting prior periods' costs related to the construction, improvement, and repair of State Fair Park facilities, adjustments were made to correct misstatements in the following accounts:

<u>Account</u>	<u>Balance June 30, 2000</u>	<u>Adjustment</u>	<u>Balance June 30, 2000 Restated</u>
Cash and cash equivalents	\$ 2,305,263	\$ (35,060)	\$ 2,270,203
Fixed assets	48,996,944	4,088,590	53,085,534
Accumulated depreciation	(20,181,460)	(97,956)	(20,279,416)
Accounts payable	1,222,083	3,060,052	4,282,135
Notes payable	210,420	2,573	212,993
Retained earnings	(1,200,177)	(2,097,122)	(3,297,299)
Contributed capital	14,912,141	2,990,071	17,902,212

9. Contributed Capital

During the year, contributed capital changed as summarized below:

Balance July 1, 2000	\$14,912,141
Prior-period adjustment	<u>2,990,071</u>
Balance July 1, 2000, restated *	17,902,212
State-financed repairs and additions to fixed assets	<u>4,149,276</u>
Balance, June 30, 2001	\$22,051,488

* The prior-period adjustment was necessary to correct misstatements in reported fixed assets or repair expenses funded by State of Wisconsin general purpose revenue or other non-state funds.

10. Employee Retirement Plan

Permanent, full-time employees of the State Fair Park are participants in the Wisconsin Retirement System, a cost-sharing, multiple employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions,

and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1999, may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

The report is also available on the Department of Employee Trust Funds' Web site, <http://badger.state.wi.us/agencies/etf/>.

The separately issued financial reports for the years ended December 31, 2000, and December 31, 2001, are expected to be available in summer of 2002.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. State Fair Park's contributions to the plan were \$324,208 for FY 2000-01. The relative position of State Fair Park in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

11. Subsequent Events

In October 2000, State Fair Park organized a nonstock, not-for-profit corporation, called the State Fair Park Exposition Center, Inc., under Internal Revenue Code 501(c)(3). State Fair Park is authorized to set up such a corporation under ch. 42, Wis. Stats. The board of the Exposition Center includes the chairperson of the State Fair Park Board, one other member of the State Fair Park Board, and three members to be appointed by the Exposition Center Board. The Exposition Center Board has broad general powers that include approving the sale, lease, or purchase of any real estate and obtaining financing by means of loans or other methods.

In August 2001, State Fair Park entered into an agreement with the Exposition Center Board to lease 7.52 acres on the State Fair Park grounds for construction of a 271,000-square-foot exposition center. The exposition center is expected to be completed and open for operations in August 2002.

The City of West Allis issued \$44.9 million in industrial revenue bonds to fund the construction of the exposition center. The bonds have been issued under an indenture of trust dated August 1, 2001, between the City of West Allis and a

commercial lending institution. The City of West Allis lent the bond proceeds to the Exposition Center Board under a loan agreement dated August 1, 2001. To secure the bonds, the Exposition Center Board obtained a letter of credit from the commercial lending institution that is intended to repay the loan to the City of West Allis in the event the debt service payments under the loan agreement are not paid.

In accordance with Governmental Accounting Standards Board Statement 14, the exposition center will be reported as a component unit of State Fair Park in future fiscal years.

In addition to the exposition center, the Pettit National Ice Center, an enclosed year-round ice center, is also located on State Fair Park grounds and is operated by Pettit National Ice Center, Inc., a private nonprofit corporation. State Fair Park reports the facility and outstanding debt liability on its balance sheet and is responsible for making debt service payments related to the cost of building the Pettit Center. Under the terms of a lease it has with State Fair Park, the Pettit Center is responsible for making monthly rent payments of \$74,351 to State Fair Park to cover the debt service payments. The Pettit Center is behind on making the payments and as of June 30, 2001, owed \$371,785 to State Fair Park. As of May 2002, the total due had increased to \$817,774. State Fair Park is working with the Pettit Center to resolve the overdue payments.

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin State Fair Park as of and for the year ended June 30, 2001, and have issued our report thereon dated May 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Wisconsin State Fair Park financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Wisconsin State Fair Park's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This independent auditor's report is intended for the information and use of the Wisconsin State Fair Park's management, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

May 15, 2002

by 
Julie Gordon
Audit Director

Appendix 1

Scheduled Program Revenue Debt Service Payments

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2001-02	\$ 1,208,196	\$ 1,140,195	\$ 2,348,391
2002-03	1,261,049	1,081,368	2,342,417
2003-04	1,222,754	1,015,844	2,238,598
2004-05	1,276,946	947,039	2,223,985
2005-06	1,188,079	878,439	2,066,518
2006-07	1,171,826	816,984	1,988,810
2007-08	1,225,920	755,608	1,981,528
2008-09	1,286,243	694,404	1,980,647
2009-10	1,353,456	629,167	1,982,623
2010-11	1,423,080	559,658	1,982,738
2011-12	1,550,889	488,534	2,039,423
2012-13	1,632,586	405,976	2,038,562
2013-14	814,723	342,451	1,157,174
2014-15	855,943	299,658	1,155,601
2015-16	901,155	254,542	1,155,697
2016-17	850,818	206,534	1,057,352
2017-18	814,305	162,713	977,018
2018-19	800,555	118,889	919,444
2019-20	710,448	75,289	785,737
2020-21	<u>615,061</u>	<u>34,570</u>	<u>649,631</u>
Total	\$22,164,032	\$10,907,862	\$33,071,894

Appendix 2

Scheduled GPR Debt Service Payments

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2001-02	\$ 484,270	\$ 597,956	\$ 1,082,226
2002-03	504,857	576,120	1,080,977
2003-04	528,369	553,979	1,082,348
2004-05	553,029	530,073	1,083,102
2005-06	553,205	502,768	1,055,973
2006-07	578,445	463,619	1,042,064
2007-08	604,800	449,123	1,053,923
2008-09	635,126	421,723	1,056,849
2009-10	666,994	393,391	1,060,385
2010-11	692,593	362,344	1,054,937
2011-12	758,324	321,980	1,080,304
2012-13	796,743	279,901	1,076,644
2013-14	820,531	235,726	1,056,257
2014-15	853,678	190,273	1,043,951
2015-16	898,940	142,703	1,041,643
2016-17	947,412	93,566	1,040,978
2017-18	614,474	52,753	667,227
2018-19	166,565	20,474	187,039
2019-20	173,472	11,418	184,890
2020-21	<u>35,967</u>	<u>1,973</u>	<u>37,940</u>
	\$11,867,794	\$6,201,863	\$18,069,657

Appendix 3

Scheduled Exposition Center Debt Service Payments

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2001-02	\$ 0	\$ 721,083	\$ 721,083
2002-03	0	2,163,250	2,163,250
2003-04	500,000	2,163,250	2,663,250
2004-05	600,000	2,138,250	2,738,250
2005-06	700,000	2,108,250	2,808,250
2006-07	800,000	2,073,250	2,873,250
2007-08	1,055,000	2,033,250	3,088,250
2008-09	1,110,000	1,980,500	3,090,500
2009-10	1,165,000	1,925,000	3,090,000
2010-11	1,225,000	1,866,750	3,091,750
2011-12	1,285,000	1,805,500	3,090,500
2012-13	1,350,000	1,741,250	3,091,250
2013-14	1,415,000	1,673,750	3,088,750
2014-15	1,485,000	1,603,000	3,088,000
2015-16	1,560,000	1,528,750	3,088,750
2016-17	1,640,000	1,450,750	3,090,750
2017-18	1,720,000	1,368,750	3,088,750
2018-19	1,805,000	1,282,750	3,087,750
2019-20	1,895,000	1,192,500	3,087,500
2020-21	1,990,000	1,097,750	3,087,750
2021-22	2,090,000	998,250	3,088,250
2022-23	2,195,000	893,750	3,088,750
2023-24	2,305,000	784,000	3,089,000
2024-25	2,420,000	668,750	3,088,750
2025-26	2,540,000	547,750	3,087,750
2026-27	2,670,000	420,750	3,090,750
2027-28	2,800,000	287,250	3,087,250
2028-29	<u>2,945,000</u>	<u>147,250</u>	<u>3,092,250</u>
Total	\$43,265,000	\$38,665,333	\$81,930,333



June 19, 2002

Ms. Janice Mueller
State Auditor
State of Wisconsin Legislative Audit Bureau
22 E. Mifflin Street Suite 500
Madison, WI 53703

Dear Ms. Mueller,

First and foremost, we would like to compliment you and your staff for the quality work performed on the Wisconsin State Fair Park audit. Throughout the entire process, your staff has conducted themselves in a highly professional manner and we especially appreciated their willingness to work towards a broader understanding of the many fundamental changes evolving at the Fair Park. As a general comment, we find the audit thorough, balanced and an accurate representation of the 2001 fiscal year. We also find the questions posed about the future agency structure of State Fair Park to be thought provoking and helpful as we collectively work with the Legislature in repositioning the agency to function more as a business with the goal of financial self sufficiency.

In hopes of better utilizing this audit as a tool for future improvements at WSFP we thought it would be helpful to expand on various comments from within the report. This is not to say the report falls short but rather that by nature, audits focus more on the past performance first and to a lesser degree future activity that may positively impact the agency. This hopefully will provide readers with a broader understanding of our strategies moving forward as well as serve to highlight the operational enhancements we feel are necessary for the organization to keep pace with the Master Plan developments.

1. The basis for understanding current developments at WSFP as well as for measuring progress thereof, should be pegged to the WSFP 1999 Strategic Development Committee Report. It should be noted that this report took to heart recommendations from the 1995-96 LAB audit of WSFP as well as the Earnst and Young Study on future operational needs for the Fair Park. *One of the primary recommendations made within the SDC report stated the need for creation of a comprehensive Master Plan for WSFP to serve as a "blueprint" for the future. This to-date has been achieved.*

2. Most capital improvements made prior to the 1999 Report were on a singular basis with no particular plan in mind. *Historically, the most recent larger scale plan for improvements at the Fair Park occurred in the early 70's (over 30 years ago). Improvements included the Coliseum, administration building, Ag products building and restroom facilities.*
3. In 1999, concurrent with the SDC Report, a general consensus was developed between the Governor, the Legislature and WSFP suggesting that as landlord of the property, the State would provide GPR bonding only for infrastructure and buildings in the Agriculture area of the park. The basis for this agreement was that infrastructure cannot generate operating revenues, "direct or indirect" and that the traditional Agriculture building activities have never generated enough revenue to pay for itself and therefore require State assistance. *All other proposed building projects would be built on a self-supporting basis and examined individually for financial feasibility.*
4. Capital projects such as the Pettit National Ice Center and the Tommy G. Thompson Youth Center were built as stand alone projects. *Although both were built with sound intentions neither was built within the context of a larger, comprehensive plan and neither was built to generate revenues as a primary mission.*
5. Contrary to many opinions, the Pettit National Ice Center was not a WSFP project, nor was WSFP involved in the development of the business model, program development or direct construction process. Furthermore, WSFP was not factored into the financial model for purposes of supporting operating revenues. *As new buildings within the Master Plan come online, they should be measured against the strength of the business model and financials, not the current financial challenges of the PNIC project. (For the record, WSFP and the PNIC are working very cooperatively towards solving the current financial situation and are confident a resolution can be achieved).*
6. In Act 16, the WSFP Board was reconfigured to allow new membership on its board including (4) State Legislators for purposes of providing Legislative oversight for the building projects within the Mater Plan process. *Additionally, the LAB has the ability to do continued annual audits of all entities created within the Fair Park Master Plan.*
7. If future direction for the Master Plan is in question due to the 2001 revenue/expenditure ratio, then actions taken recently by new management for '02 fiscal year should be noted to highlight progress made in the past year to correct this ratio imbalance. *Note: New management was brought in October of 2001. Major highlights on progress are:*

- ❑ Fiscal '02 expenditures are \$1.0 million below '01 levels due to major budget cuts, organization consolidation, contracting out of certain business lines and significant reductions in overtime.
- ❑ Fiscal '02 forecasts a shortfall of approximately (\$533,000.) It must be noted however that were it not for the State lapse and Pettit Center rent shortfall, WSFP would have shown a \$1.2 million dollar surplus in '02. This surplus amount would be higher than any prior year surplus over at least the past two decades.
- ❑ Fiscal '03 revenues presented by new management are the same as '02 levels despite shifting \$2 million dollars worth of exhibition business over to the new Exposition Center.
- ❑ Fiscal '03 revenues presented by new management forecast expenditures to be \$650,000 under fiscal '02 levels.
- ❑ Fiscal '03 forecasts a minimal surplus of approximately \$47,000 after the State lapse of \$638,000.

In summary, if State Fair Park is to become self sufficient, the State must allow the organization to retain its profits for purposes of reinvestment into the property, ongoing maintenance and operational growth to produce increased revenues.

8. It is new managements firm belief (as underscored in the SDC report) that beyond profit retention, WSFP must also be provided the structure to operate more as a business in order to react quickly to business opportunities and to compete for tourism business with other regional entertainment destinations, i.e. Six Flags, Rosemont, Chicagoland Speedway, etc.. The State Legislature concurred with this assessment and subsequently provided WSFP with the statutory authority in Act 16, to create non-profit entities to assist with this challenge. As noted in the audit report, WSFP has begun taking steps in this direction with the creation of the Exposition Center Inc.. *Note that this is not a criticism of State Government but rather a realization that government bureaucracy was never intended to meet the needs of an entertainment organization nor the demands of competition.*

In closing, we sincerely appreciate the opportunity to provide comment on the progress of the WSFP Master Plan, agency financials and operational improvements. We also welcome and look forward to the fiscal '02 LAB audit process as a means of measuring our continued progress. Please know that the WSFP Board and management remain committed to seeing the Master Plan become a reality for the benefit of the State of Wisconsin and all its citizens. Furthermore, we believe this project will prove a renaissance for the State Fair and its rich history of the State of Wisconsin. Lastly we will always be grateful for the past and continued support of the Wisconsin State Legislature and the

Governors Office for their unwavering bipartisan support of the Wisconsin State Fair Park. On Wisconsin!

Sincerely,

A handwritten signature in black ink, appearing to read "J. Chnelich". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Joseph M. Chnelich
Chief Executive Officer

Cc: William R. Drew - Chairman